

## Message Text

LIMITED OFFICIAL USE

PAGE 01 HELSIN 00840 261013Z  
ACTION EUR-12

INFO OCT-01 ISO-00 L-03 AID-05 CIAE-00 COME-00 EB-08  
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02  
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 PA-01 PRS-01  
NSC-05 SS-15 STR-04 CEA-01 H-01 ABF-01 /087 W  
-----261017Z 121928 /17

R 260910Z APR 77  
FM AMEMBASSY HELSINKI  
TO SECSTATE WASHDC 1285  
INFO AMEMBASSY COPENHAGEN  
AMEMBASSY OSLO  
AMEMBASSY STOCKHOLM  
USMISSION OECD PARIS

LIMITED OFFICIAL USE HELSINKI 0840

E.O. 11652: N/A  
TAGS: EFIN, ELAB, FI  
SUBJECT: RECENT DEVALUATION BROUGHT OFF SMOOTHLY BUT UNDERLYING  
PROBLEMS REMAIN

REF: HELSINKI 0743

1. DEVALUATION APRIL 4 HAS BEEN BROUGHT OFF VERY SMOOTHLY  
DESPITE ITS AWKWARD TIMING IN MIDDLE OF DIFFICULT NATIONWIDE  
INCOMES NEGOTIATIONS. IT WAS SMALL ENOUGH -- 5.7 PERCENT --  
AND CLEARLY ENOUGH A REACTION TO SWEDISH DEVALUATION TO AVOID  
TRIGGERING DEMANDS BY LABOR FOR ADDITIONAL COMPENSATION  
AGAINST LOSSES IN REAL INCOME. AT SAME TIME ABSTENTION  
FROM USE OF EXCHANGE RATE MECHANISM AS POLICY TOOL TO ATTACK  
BASIC ECONOMIC PROBLEMS WAS DEFINITIVE ENOUGH TO CALM DOUBTS  
OVER EXCHANGE RATE POLICY AT LEAST FOR NEXT SEVERAL MONTHS,  
MOOTING AS ISSUE IN NEGOTIATIONS LABOR PRESSURE FOR PROTEC-  
TION AGAINST FUTURE DEVALUATION. BY ALLAYING DEVALUATION  
POLICY QUESTION FOR TIME BEING, GOVT AND BANK OF FINLAND  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 HELSIN 00840 261013Z

HAVE FREED THEMSELVES FROM MOUNTING PUBLIC DISCUSSION OF  
REALISM OF THEIR POLICY OF REDUCING INFLATION BELOW RATES  
PREVAILING IN WESTERN COUNTRIES WITH WHICH FINLAND TRADES  
UNTIL FINNMARK'S VALUE BECOMES MORE APPROPRIATE. THE  
DEVALUATION, FAR FROM BEING ABANDONMENT OF THAT POLICY,  
WILL IMPROVE DOMESTIC ENVIRONMENT FOR CONTINUATION OF  
SAME POLICY LINE.

2. KEY TO SUCCESS OF BANK OF FINLAND AND GOVT APPEARS TO HAVE BEEN CONVINCING PRESENTATION OF DEVALUATION AS ADJUSTMENT DICTATED BY SWEDISH DEVALUATION. INVOLVEMENT OF LABOR LEADERS IN INTENSIVE CONSULTATIONS OVER WEEKEND AND MONDAY AFTER SWEDISH, DANISH AND NORWEGIAN DEVALUATIONS ALSO CONTRIBUTED TO LABOR'S WILLINGNESS OVERLOOK FACT THAT IN WESTERN EUROPEAN MARKETS FINLAND'S DEVALUATION OF 5.7 PERCENT TURNED OUT IN FACT TO BE 2.0-2.5 PERCENT LARGER THAN SWEDEN'S 6 PERCENT DEVALUATION. (THIS ANOMALY CAN BE EXPLAINED BY POST-DEVALUATION APPRECIATION OF SWEDISH CROWN FROM BOTTOM TO TOP OF 4.5 PERCENT BANK IN EUROPEAN SNAKE AND BY VALUING OF FINNMARK IN TERMS OF BASKET OF CURRENCIES IN WHICH DEVALUATIONS OF THE SCANDINAVIAN CURRENCIES IN EFFECT INCREASE VALUE OF ALL OTHERS IN BASKET PURELY IN TERMS OF RELATION TO FINNMARK.) LACK OF ANY ACCOMPANYING FISCAL OR MONETARY MEASURES OTHER THAN FURTHER TIGHTENING OF CEILINGS ON COMMERCIAL BANK CREDITS SERVED FURTHER MINIMIZE PUBLIC IMPACT.

3. EXPORTERS AND IMPORTERS DISMISS EFFECTS OF DEVALUATION AS SLIGHT. SEVERAL BUSINESSMEN HAVE OBSERVED PRIVATELY THAT IT WAS NOT MAJOR DEVALUATION REQUISITE TO GIVE FINNMARK APPROPRIATE PARITY, AND PREDICT THAT LATE THIS YEAR OR NEXT YEAR DEVALUATION ISSUE WILL AGAIN BECOME PROMINENT. FOREST INDUSTRY, ACCOUNTING FOR HALF FINLAND'S EXPORTS, WILL BENEFIT MORE THAN METALWORKING INDUSTRY, OTHER MAJOR EXPORT SECTOR, BECAUSE OF LOWER FOREIGN INDEBTEDNESS AND IMPORT REQUIREMENTS; FOREST LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 HELSIN 00840 261013Z

INDUSTRY ASSOCIATION OFFICIAL MAINTAINED PRIVATELY THAT DEVALUATION FOUR TIMES AS LARGE WOULD BE APPROPRIATE FROM PURELY ECONOMIC VIEW POINT.

4. KEY PARTICIPANTS IN FINNISH ECONOMIC POLICY MAKING, INCLUDING BUSINESS, LABOR, GOVERNMENT AND BANK OF FINLAND, CLEARLY CHOSE CONTINUE BANK OF FINLAND'S POLICY, ALBEIT WITH TECHNICAL CORRECTION TO REFLECT SPECIAL IMPORTANCE OF BOTH FINNISH-SWEDISH TRADE AND DIRECT FINNISH-SWEDISH COMPETITION IN THIRD MARKETS. UNDERLYING ECONOMIC PROBLEMS, PARTICULARLY FINLAND'S WEAKENING INTERNATIONAL COMPETITIVENESS, FUNDAMENTAL DISAGREEMENT BETWEEN BUSINESS AND LABOR ON INCOMES AND PRODUCTION COSTS, INFLATION, AND STAGNANT EXTERNAL MARKETS, REMAIN VIRTUALLY UNAFFECTED.

5. WHILE RECENT DEVALUATION WAS MANAGED FLAWLESSLY, IT MAY TURN OUT TO HAVE BEEN MORE A PALLIATIVE THAN CURE. IT HAS PROBABLY STRENGTHENED SLIGHTLY THE POSITION OF PRESENT GOVT, WHICH, WITHOUT PARTICIPATION OF LEFT,

WOULD BE UNABLE TO FIND BROAD SUPPORT FOR AUSTERITY MEASURES NECESSARY TO CARRY OUT MAJOR DEVALUATION EFFECTIVELY. IT ALSO PROVIDES BANK OF FINLAND MORE FAVORABLE CONDITIONS FOR CONTINUING ITS POLICY APPROACH. BUT INFLATIONARY IMPACT OF DEVALUATION ESTIMATED BY GOVT AT 1.6 PERCENT IN ADDITION TO INFLATION OVER 1977 ESTIMATED BY GOVT IN EARLY MARCH AT 12 PERCENT, ON TOP OF ALREADY WIDE GAP BETWEEN FINNISH AND INTERNATIONAL COSTS, ASSURES THAT EVENTUALLY FINNMARK EXCHANGE RATE ISSUES WILL HAVE TO BE REEXAMINED. AND BECAUSE BANK OF FINLAND'S POLICY OF TYING FINNMARK TO BASKET OF CURRENCIES DOES NOT TAKE INTO ACCOUNT DOMESTIC COST DEVELOPMENTS, FUNDAMENTAL CORRECTION LIKELY REQUIRE HARD POLITICAL DECISION, UNLESS SWEDES AGAIN PROVIDE CONVENIENT LEAD FOR FINNS TO FOLLOW.

6. PRODDER BY RECENT DEVALUATION, FINNISH GOVT PRESENTED TO PARLIAMENT ON APRIL 22 BILL WHICH PROVIDES LEGAL BASIS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 HELSIN 00840 261013Z

FOR EXCHANGE RATE POLICY THAT IN FACT FOLLOWED BY BANK OF FINLAND SINCE 1972 OF SETTING VALUE OF FINNMARK AGAINST BASKET OF 16 CURRENCIES. THIS BILL OFFICIALLY REMOVES FINNMARK FROM GOLD STANDARD AND IS CHARACTERIZED BY GOVT AND BANK OF FINLAND OFFICIALS AS PURELY TECHNICAL ADJUSTMENT.

7. AIRGRAM WILL FOLLOW SETTING OUT COST TRENDS HAMPERING FINLAND'S EXPORT PERFORMANCE AND OTHER CONSIDERATIONS BEARING ON FINLAND'S EXCHANGE RATE POLICY.

HOUSTON

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** REPORTS, LABOR UNIONS, LABOR DISPUTES, NEGOTIATIONS, DEVALUATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 26-Apr-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977HELSIN00840  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770144-1267  
**Format:** TEL  
**From:** HELSINKI  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770420/aaaaaqjw.tel  
**Line Count:** 152  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 63a01c9f-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 HELSINKI 743  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 02-Feb-2005 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2696962  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** RECENT DEVALUATION BROUGHT OFF SMOOTHLY BUT UNDERLYING PROBLEMS REMAIN  
**TAGS:** EFIN, ELAB, FI  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/63a01c9f-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009